

DIVISION OF CREDIT UNIONS

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TO: The Board of Directors and Management of Missouri state-chartered credit unions

SUBJECT: Internal Controls

The purpose of this bulletin is to remind the board of directors and senior management of credit unions about the importance of establishing necessary internal control. Internal control is a process initiated by the board and senior management and practiced by all employees that provides reasonable assurance the goals of the credit union are met. This process should include all measures and practices the credit union is capable of instituting that will continually operate at all levels. Although the board and management establish the culture of effective internal control, each employee within the credit union must participate in the process.

The four main objectives of an effective and comprehensive internal control process are:

1. To safeguard the assets and other resources of the credit union. This usually includes areas that are most identified with internal controls and would include practices of separation of duties, supervisor overrides and responsibilities, third party verifications. Etc.
2. To promote and maintain the reliability of efficient and effective operations. These are areas such as policies and procedures that define employee's areas and scope of responsibilities. Examples are limits on loan officer authority, investment policy limitations, asset/ liability management policy etc.
3. To provide reliable financial statements. Accurate and reliable reports of the organization are essential information that are necessary for all interested parties to fulfill their responsibilities.
4. To provide the credit union board, management, members, and other third parties reasonable assurance the credit union is in compliance with established policies, procedures, and applicable laws and regulations.

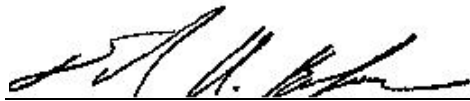
The above referenced information describes the purpose of internal control. The key, of course, is application to the individual credit union's situation. All credit unions, regardless of circumstances or size, can institute aspects of effective internal control. What may be effective and or possible for one credit union may not be appropriate for another. In other words, the internal control program must be implemented according to the individual credit union circumstances.

Establishing a culture and mindset of an ongoing internal control process should be a credit union's first step. From the board of directors through the part-time teller, everyone should be educated on their level of responsibility in this process and made to understand what is expected of them and why. Once this is accomplished and ongoing, improvements to the process will evolve. Thinking about the essence of internal control will ultimately produce outstanding results that provide the members with the best credit union possible.

One of management's fundamental responsibilities in the Information Systems and Technology (IS&T) area is to ensure adequate internal controls over information (data) and the systems (hardware & software) that store, process, and transport it. Since most electronic fraud occurs internally, the board of directors, supervisory or audit committee, and operating management should understand the risks and controls associated with the information systems used by the credit union.

Literally, all risks and associated losses can be mitigated with effective internal control. This is true in credit unions that have excessive loan losses, or loan program failures, or fraud losses, accounting problems etc. Consult your auditor, credit union association representative, and examiners on areas and methods that can be utilized to enhance internal control.

In summary effective internal control means every person involved in the organization should be aware of the four areas listed above and constantly remain mindful of ways to be sure these areas are being properly ensured. This will not only increase safety and soundness of operations but will also result in ideas to improve operations and thereby the return to the members.



David Bohrer, Deputy Director

December 7, 2004